DTCC enhancement will allow settlement of 1035 exchanges in one day

By Editorial Staff   *Thu, Apr 30, 2015*

The asset transfers that are known as 1035 exchanges, or replacements, allow investors to move funds from one life insurance, annuity or endowment to another, without triggering an immediate tax obligation. They also often create an operational burden for insurance carriers.

The Depository Trust & Clearing Corporation (DTCC), which processes millions of trades each night for the global financial services industry, has enhanced its "Settlement Processing for Insurance" (STL) functionality to automate the 1035 exchange process and allow settlement to take place within one day.

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"Industry representatives approached DTCC in mid-2014 for an automated 1035 exchange transaction solution to lower the costs and risks associated with manual processes," DTCC said in a release this week. "Currently, carriers administer manual, costly and potentially error-prone processes, including the issuance of checks and wire transfers, which can create misrouted money risk."

In response, DTCC's Insurance & Retirement Services (I&RS) unit led an industry working group, which included members of the Insured Retirement Institute's Replacement Automation work group. The result of their analysis was the "Settlement for Replacements" expansion. The new enhancement automates the 1035 exchange process, allowing settlement to take place within one day.

STL automates settlement processing for the movement of life insurance premiums, systemic withdrawals, full and partial surrenders, and mandatory distributions within the suite of Insurance and Retirement Processing Services of National Securities Clearing Corporation, a DTCC subsidiary.